In January 2003 the Scottish Executive published ‘A Review of the Scottish Executive’s Policies to Promote the Social Economy’. This document assessed the social economy’s actual and potential contribution to supporting the Executive with its key objectives. It also identified how the Executive, other public bodies and independent agencies could support the sector in realising its potential. This briefing outlines the difficulties in defining the scope of the social economy and considers research that has attempted to identify the benefits arising from social economy organisations and the effectiveness of the sector. It goes on to analyse its extent in Scotland and describes public policy towards it.
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key points of this briefing</td>
<td>3</td>
</tr>
<tr>
<td>What is the social economy?</td>
<td>4</td>
</tr>
<tr>
<td>Definitions of the social economy</td>
<td>5</td>
</tr>
<tr>
<td>Wide definition</td>
<td>5</td>
</tr>
<tr>
<td>Narrow definition</td>
<td>5</td>
</tr>
<tr>
<td>Activities &amp; benefits of the social economy</td>
<td>6</td>
</tr>
<tr>
<td>Activities of the social economy</td>
<td>6</td>
</tr>
<tr>
<td>Benefits of the social economy</td>
<td>6</td>
</tr>
<tr>
<td>The obstacles facing the sector</td>
<td>7</td>
</tr>
<tr>
<td>Limitations specific to the social economy</td>
<td>7</td>
</tr>
<tr>
<td>External and institutional constraints</td>
<td>8</td>
</tr>
<tr>
<td>Constraints common to all small and medium-sized enterprises</td>
<td>9</td>
</tr>
<tr>
<td>Critiques of the social economy</td>
<td>9</td>
</tr>
<tr>
<td>The social economy in Scotland</td>
<td>10</td>
</tr>
<tr>
<td>The scale of the social economy in Scotland</td>
<td>10</td>
</tr>
<tr>
<td>Local information</td>
<td>11</td>
</tr>
<tr>
<td>Sources of income</td>
<td>11</td>
</tr>
<tr>
<td>European funding</td>
<td>12</td>
</tr>
<tr>
<td>The Scottish Executive approach to the social economy</td>
<td>12</td>
</tr>
<tr>
<td>Scottish Executive action plan to support the social economy</td>
<td>13</td>
</tr>
<tr>
<td>Funding</td>
<td>13</td>
</tr>
<tr>
<td>Market access and capacity building</td>
<td>14</td>
</tr>
<tr>
<td>Support services for social economy organisations</td>
<td>14</td>
</tr>
<tr>
<td>Bibliography</td>
<td>17</td>
</tr>
</tbody>
</table>
KEY POINTS OF THIS BRIEFING

- The social economy is an international concept that has attracted increasing interest from policy makers;
- It constitutes an important body of economic activity, sitting alongside the formal economy, operating mostly in areas of service provision that it does not pay the private sector to exploit;
- There is debate in the social economy literature about defining precisely what constitutes a social economy organisation;
- As a result, there have been varying evaluations about what the social economy is worth to the Scottish economy as a whole – depending on the definition and methodology used;
- Using a narrow definition puts the number of social economy jobs in Scotland at around 55-60,000, a broader definition puts the number of paid employees at around 107,000;
- Using a wide definition, social economy organisations range from community/voluntary groups, charities through to credit union and housing groups;
- Social economy organisations have been successful in obtaining European funding;
- It is argued that social economy organisations can bring a number of benefits to services that neither the private or public sectors are effective in delivering;
- Research shows that the social economy faces a large number of obstacles, which hinder its future development;
- There is not a significant body of research into the benefits of the social economy, though there are studies looking at specific areas that do offer a critique of the sector;
- In a press release in January 2003, the Scottish Executive announced a £6 million funding package designed to support the development of the Scottish social economy sector – on the same day they also launched A Review of the Scottish Executive's Policies to Promote the Social Economy;
- The Executive see the review as a first step in promoting and developing the social economy, and will call on the support of a range of organisations in achieving its goals.
WHAT IS THE SOCIAL ECONOMY?

Research has concentrated on the main features of the social economy. These can be summarised as:

- Its “not for profit” motivation – any profits are not distributed to the “owners” of the businesses but are reinvested for community benefit;
- Its role in responding to a needs not met by the market;
- Its strong level of volunteering input – services are provided by paid employees, voluntary activity is also a major feature e.g. volunteers direct the organisation;
- Its capacity to build a relationship of trust with its client groups;
- Its expertise in dealing with disadvantaged groups and communities;
- The fact that excluded groups and communities are often involved in the ownership and management of its organisations;
- Its high degree of autonomy from the state.

(Simon Clark Associates (SCA), 2002); McGregor et al (1997); Salamon et al (1999)).

The development of the social economy has been an international phenomenon that has attracted increased attention from policy makers. In a recent article Oatley (1999) suggests that its rise followed a number of social, economic and political processes:

“The crisis in the welfare state in Western countries has led to increasing demand for services. Demographic change, the bureaucratic and institutional nature of many forms of care, the development of a ‘dependency culture’ as a result of unemployment have all contributed to a growth in demand for services. This coincided with the rise to power of cost-cutting New Right governments in the late 1970s and 80s in many western countries which led to the emergence of Third sector organisations to fill the gap left by the withdrawal and reduction of state services.” (p 340).

New Right thinking gained more influence in the UK than in the majority of countries in Europe, though the crisis did, over time, lead to a general review of the role of the state across the continent. In a research programme website, Nyssens et al contend that throughout Europe:

“…the persistence of structural unemployment,…the need to reduce State budget deficits and to keep them at a low level, the difficulties of traditional social policies in answering social needs and the need for more active integration policies have naturally raised the question of how far the third sector can help to meet these challenges.”

Indeed the concept of the social economy was created in France (Nyssens et al).

The result has seen significant interest in the concept (though only recently in the UK), which in turn has provoked much discussion. Oatley notes that definitions vary depending on the “historical, legal, social and economic context of individual countries”. (1999, p 339). However, it is generally accepted that the sector is seen to be that which sits between the public and private sectors, and, as discussed in a literature review for Community Scotland, a number of phrases have been used over recent years to describe it including the third sector, the not-for-profit sector and the voluntary sector. (SCA, 2002). Very often these terms are used interchangeably and this has led to confusion. Oatley (1999) believes that it is more common to define the sector by the values and principles of the groups or organisations that make up the social economy rather than by the type of legal constitution.
SCA (2002) note that there are two basic forms of a social economy definition – a wide definition and a narrow definition.

DEFINITIONS OF THE SOCIAL ECONOMY

Wide definition

A wide definition is proposed by Oatley (1999), who discusses the topic in a European context. Oatley notes that the term “social economy” has had a much longer usage in continental Europe than in the UK, and this has perhaps led to the confusion with such terms as “the third sector” and “not-for-profit sector”, which were more common in Britain. The continental Europe model contains three families of organisations:

- **Cooperatives** – run for and by their members, on the basis of one member one vote, rather than on capital shareholding, and have a range of social purposes;
- **Mutuals** – were important in the UK prior to the welfare state, enabling people to protect themselves against adversity with mutual insurance schemes;
- **Associations** – what would most commonly be called the voluntary sector in the UK. (p 341).

As Oatley continues:

“Social economy encompasses the wide range of activity from purely philanthropic to organisations which trade to advance their social objectives, all with people centred, participative and democratic values.” (1999, p 341).

This view is shared by the [Scottish Council for Voluntary Organisations](https://www.scvo.org.uk) (SCVO) and the [Scottish Executive](https://www.gov.scot). SCVO consider that any discussion of the social economy must include looking at what the sector contributes to the generation of wealth - starting with the conventional outputs such as turnover as the proportion of GDP, paid employment as a proportion of the total labour force etc., but also embracing the value of the volunteer contribution and the generation of social capital. SCVO contend that trying to narrow the definition of the social economy ignores the substantial economic contribution of the grant / charity section of the voluntary sector and the fact that many grant dependent organisations will evolve into non-profit trading organisations. It believes a generic definition captures the full range of the voluntary / non-profit sectors’ economic contribution as well as the particular roles, needs and potential of sub-groups e.g. social firms (providing employment for people with disabilities), community businesses, charitable service providers, and various forms of social enterprise.

Narrow definition

The SCA (2002) note that this definition is typified by the work of several projects, including a report into the social economy in Lowland Scotland by McGregor et al (1997), which limits the definition to social enterprises. As McGregor et al note:

“The social economy is essentially a ‘small business’ and a service sector which directs its resources and activities very much towards disadvantaged areas and groups. Its primary beneficiaries include the unemployed and those on low incomes. The social economy makes a direct contribution to the alleviation of poverty. It represents a significant means of reaching excluded individuals, including them in meaningful activity, improving their capacities and

circumstances and potentially drawing them on into the mainstream economy.” (1997, p iii).

The main disagreement here with proponents of a wider definition, such as the SCVO, would appear to be whether many organisations that can be described as part of the voluntary sector, such as social care organisations or interest groups, are generating income for the economy.

Brown (2001) believes that the increasing policy focus on the social economy is a challenge for the voluntary sector, particularly for small organisations. She argues that to be part of the social economy, some organisations need to decide whether or not they wish to be seen as businesses, as this may influence funding sources:

“Scottish Enterprise is likely only to work with a small proportion of the most ‘growth-orientated’ organisations. This suggests that organisations shift from being grant recipients to social enterprises that can make, keep and reinvest surpluses. A divergence may appear between social enterprises and the organisations that wish to focus on campaigning or who provide services to communities of interest that are highly valued but not necessarily large in financial terms.” (p 26).

**ACTIVITIES & BENEFITS OF THE SOCIAL ECONOMY**

**Activities of the Social Economy**

No matter the debate regarding the exact nature of the social economy, it is generally accepted that it is involved in a number of activities including:

- **Employability** – skills training, work placement opportunities, education, capacity-building, welfare benefits advice;
- **Job creation** – enterprise and business development, set-up of new firms, niche firms, social forms, community enterprise/business, local employment policies;
- **Community needs** – social care (elderly, children, youth), socially useful production, health programmes, lunch clubs, play space;
- **Wealth enhancement & retention** – leveraging investment, CUs (Credit unions), LETs (Local Exchange & Trading schemes), fundraising mechanisms, revolving loans, welfare services, food co-ops, recycling schemes, energy efficiency programmes;
- **Community asset base** – self-build housing, property development, retail, offices, managed workspace, “gifting” of derelict buildings etc;
- **Neighbourhood improvement** – environment, crime and safety, “special” events (carnivals), housing refurbishment and maintenance, open space. (SCA (2002, p 14)).

**Benefits of the Social Economy**

Given the range of activities it is perhaps unsurprising that proponents of the sector perceive great benefits arising from social economy activity. Grimes and Maxwell (1997) argue that many of these activities cannot be provided more effectively by the private or public sectors. They believe that many features of the social economy are unattractive to the private sector because they are uneconomical and not profitable:

“In many areas there is need but no effective demand and hence no market. What social economy organisations are skilled at doing here is providing the financial engineering required to combine public grants, training money and
Grimes and Maxwell point to the various examples of Credit unions that have come about as banks have withdrawn from certain areas throughout the country, because they cannot generate sufficient levels of profit. They also argue that the public sector can be ineffective pointing to case studies carried out in Glasgow and the West of Scotland indicating three main reasons why the social economy can be more effective:

- Social economy organisations are able to reach and support “excluded” individuals and groups more easily because of their local knowledge;
- Social economy organisations are more accessible and approachable than statutory service providers;
- Social economy organisations tend to enhance local participation in lobbying and campaigning. (p 12-13).

Grimes and Maxwell believe that social economy organisations have been successful in regeneration projects, because they can bring “levels of skills, commitment, involvement and flexibility which are not usually matched by other agencies and organisations.” (p 13). They also suggest a number of other benefits brought about by the social economy:

- It provides communities with accessible management capacities and skills;
- It has a capacity to target activities on poorer, disadvantaged or excluded individuals;
- It offers a diversity of opportunities for participating as a volunteer;
- It provides a range of developmental and consumer services;
- It has an ability to lever in investment from different sources. (p 13).

THE OBSTACLES FACING THE SECTOR

SCA (2002, p 17-22) reviewed a number of studies that had been carried out that identified the various constraints faced by the social economy. They split them into three main headings:

- Limitations specific to the social economy;
- External and institutional constraints;
- Constraints common to all small and medium-sized enterprises.

The following sections will outline the main themes identified in the research:

Limitations specific to the Social Economy

**Diffuse, confused and multiple goals** - social economy organisations are often trying to fulfil a number of different goals, leading to competition between goals, difficulties in managing resources, a lack of clarity and imprecise perceptions of goals by different stakeholders.

**Supply of social entrepreneurs** – there are a lack of social entrepreneurs, especially at the start-up stage. The result can be an over reliance on the unique skills of particular individuals who cannot be easily replaced. In addition, as the organisation develops the existing social entrepreneurs may not have the necessary skills critical to take it forward.

**Management skills and issues** – given the multiple goals and range of stakeholders, the decision-making process can be complex. This is made more complicated by the participatory
culture that surrounds these organisations. It can also be difficult to balance effective management and work practices with workforce discipline in a co-operative/quasi co-operative setting.

**Managing organisational change** – there is a lack of capacity to deal with the process of changing from grant funding to more fixed sources of income. Organisational development capacity is also limited, evidenced by a lack of strategic approaches, a limited ability to respond to change quickly and appropriately, and a risk of competition from other social economy organisations.

**Funding issues** – there is a limited knowledge and expertise in accessing funding sources, a problem particularly for newer and smaller organisations. Funding tends to be made on an annual/short term basis, which makes planning difficult, ties up a lot of staff time in securing annualised funding and makes it hard to hold onto good staff. There has also been a trend away from core funding to project based funding, which weakens the organisation’s capacity to manage service delivery, and a common complaint that funding focused on innovation can result in well-established services losing out. In addition there is an over-reliance on public sector funding, and a history of contracts that have too great an emphasis on cost and an insufficient allowance for overheads in the management of contracts and projects.

**Human resource issues** – the uncertain funding situation often leads to poor employment conditions. Social economy organisations often do not have the appropriate skills in-house and find it difficult to access and pay for training (a common problem in the small business sector as a whole). In addition, many social economy organisations rely on volunteer labour, there can be difficulties sourcing appropriate volunteers and in managing the more unreliable aspects accompanying that part of the workforce.

**Other constraints** – including problems in finding suitable and affordable premises in appropriate locations, transforming needs into markets and the tensions between the pressures for competition and collaboration.

**External and institutional constraints**

**Lack of co-ordinated support** – a lack of co-operation between funders and co-ordination between support agencies leads to a waste in time and resources, as well as poor quality, inappropriate support. There is a perceived lack of information and advice for managers, and a lack of access to business support services.

**Lack of awareness or negative perceptions** – there is a lack of belief in the capacity of social economy organisations to play a significant role in the local economy. This is coupled with a lack of belief by some public agency staff of the potential impact of the social economy as an approach to meeting the needs of a wide range of excluded groups. There is also a problem with the attitude of public agencies to allow social economy organisations the space to generate new forms of action and service development.

**Access to finance** – There is a lack of understanding about the social economy in the financial sector, with the result that the range of financial instruments available to support organisations is too narrow coupled with an unwillingness to tailor existing instruments to the needs of organisations. It is also felt there are too many government initiatives and too frequent changes in the rules for existing initiatives.

**Regulatory constraints** – as well as the usual regulatory restraints placed on not-for-profit businesses, social economy organisations also face additional regulatory frameworks. These
restraints are particularly felt by the credit union and housing association sectors. It is felt that regulatory restrictions dampen entrepreneurialism.

**Constraints common to all small and medium-sized enterprises**

In common with small and medium-sized enterprises in the private sector, social economy organisations experience a lack of management skills and expertise in relation to marketing, information technology, business planning and raising finance. In addition:

- There is under-development of people resources due to the general problems faced by small and medium-sized enterprises trying to invest in their workforces;
- Financial and material resources are limited, forcing social economy organisations into short term thinking and behaviour;
- There are problems of succession management. When organisations grow and develop, the original social entrepreneur may become a barrier to effective change;
- Bureaucratic processes of the agencies are a barrier for organisations seeking funding or other supports.

**CRITIQUES OF THE SOCIAL ECONOMY**

Much of the general literature regarding the social economy concentrates on the scale of the sector and its positive attributes. It would appear there has been little or no research into how well, or otherwise, social economy organisations as a whole have benefited the communities they serve. This may be because the concept of the social economy is a relatively new area of study in the UK, and perhaps more research will take place in the future.

It does appear that a consensus has grown around the view that social economy organisations can effectively support areas that the public and private sectors cannot. However, there has been recent research in specific areas that challenges this established view.

The first study concerns the social economy and job creation. The Institute for Public Policy Research (IPPR) has recently investigated regional economic disparities, which included a review of the work of social enterprises. There is evidence to suggest that the record of social enterprise in creating jobs is far from proven. They are useful in enabling individuals to learn new skills, building the capacity of communities and expanding social capital. However, these are activities needed in areas such as the South East (with full employment and, therefore, supply side employment problems) but are much less of a priority in regions, such as Scotland, with demand-side employment problems i.e. where there is labour available but often not with the appropriate skills or the employment opportunities available. The research project did not set out to disprove the value of social enterprises, but rather found through its study that many claims that are made for it are, as yet, unproven. A full report on this issue by the IPPR is due to be published in October 2003.

The second piece of research concerns credit unions. Barker (1995) describes credit unions as:

> “…financial co-operatives based on principles of open membership and democratic control. They offer one of the cheapest sources of credit available and are particularly attractive to people on low incomes who have limited access to credit or to savings facilities.” (p 2).

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2 Personal communication (25 July 2003).
Credit unions are very much seen as part of the social economy (as discussed in the Activities section above). Kempson et al (2000) note that the UK Government are very keen to promote credit unions and this is also true in Scotland. In a press release (2002) the then Minister for Social Justice, Margaret Curran, said that credit unions “make an important contribution towards promoting financial inclusion in communities across Scotland.”

Kempson et al (2000) note there is evidence to suggest that credit unions have a part to play in tackling financial exclusion in disadvantaged areas. However, their impact has been patchy across the country, and they are not always being utilised by those that need them most, for instance the unemployed, pensioners and those from ethnic minorities. Kempson et al argue that:

“It is clear…that credit unions need to undergo considerable change in order to become viable and sustainable financial services providers…Put simply, credit unions need to move towards a ‘virtuous circle’ of development – they have to attract more savings, which will lead to bigger loans, which will lead to higher income, bigger reserves, more members, more savings and so on.” (p 81).

They are clear, however, that there are gaps in the research in this area, and that more studies are needed regarding the effectiveness of credit unions.

THE SOCIAL ECONOMY IN SCOTLAND

This section will concentrate on ascertaining the size of the social economy in Scotland and sources of income for social economy organisations. This is followed by a discussion about the Scottish Executive’s approach to the sector.

THE SCALE OF THE SOCIAL ECONOMY IN SCOTLAND

Given the discussion above, the identifiable characteristics of the social economy in Scotland rather depend upon the definition used. This is illustrated in Table 1, where a number of criteria are used to measure the social economy under each definition.

Table 1: Scale of the Social Economy in Scotland based on Narrow and Wide Definitions

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Narrow Definition</th>
<th>Wide Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of organisations</td>
<td>Between 10-11,000 organisations.</td>
<td>Around 50,000 voluntary organisations, all of which are constituted though not all have employees.</td>
</tr>
<tr>
<td>Paid employment</td>
<td>Between 55-60,000 (40,000 full time equivalents).</td>
<td>Around 107,000 paid employees (80,000 full time equivalents).</td>
</tr>
<tr>
<td>Voluntary sector</td>
<td>Volunteering is a significant feature with around 160,000 opportunities.</td>
<td>Over 1.3 million volunteers (based on Scottish Household Survey figures).</td>
</tr>
<tr>
<td>Income &amp; assets</td>
<td>Around £1.5 billion of income. It is not possible to suggest the asset base under this definition.</td>
<td>An income of £2.08 billion, with 5% of organisations accounting for 67% of the income. The asset base is estimated at around £7.1 billion, with housing and property-based organisations accounting for a major part of this.</td>
</tr>
</tbody>
</table>

Sources: SCA (2002, p 11-12) and SCVO (2003, p 2)

Table 1 shows that the use of a particular definition can skew the scale of the social economy significantly. SCA (2002) note that under either definition, it is generally thought that the sector
is dependent on public funding, however, increasingly, revenue is being drawn from the sale of goods and services. The SCVO\(^3\) contend that a significant share of these sales is to the public sector.

**Local information**

It is difficult to assess the local picture as regards the social economy. SCA (2002) undertook a review of the various mapping exercises that were undertaken on behalf of Local Enterprise Companies, and found a number of different definitions being used across the country together with differing objectives behind each of the studies.

However, particular comments have been made about rural areas. SCA (2002, p 13) note that case study evidence has shown that in rural communities:

- Co-operatives tend to be more significant in their representation within the core social economy. This might be expected, given the tradition for agriculture and agriculture-related activities to feature this form of activity;
- It is more likely to see social economy organisations operating within the mainstream of community life (rather than, say, serving only disadvantaged areas or groups – although they do that as well). Scotland’s community business movement has its roots in the community co-ops of the Highlands, where staple economic activities came to depend on collective action as private sector provision withdrew.

**SOURCES OF INCOME**

The social economy has a variety of sources of income – most notably the public sector, self-generated income, public donations, the National Lottery and the private sector. However, again, the data differs according to the definition used at the outset.

McGregor et al (1997, p 6), who used a narrow definition of the sector, found that 60% of total social economy income comes from public sector grants, followed by 21% from self-generated income and a combined 14% from donations, fundraising and the National Lottery. The last 5% is made up from private sector grants and other smaller sources.

However, this differs markedly from the figures of the SCVO (2003, p 9), who favour the wider definition. Here, self-generated income accounts for 39% of the social economy’s total income, followed by 38% from the public sector and 17% from donations and the National Lottery.

Caution should be exercised in analysing these figures, particularly given that there is a significant period of time elapsing between the publication of the two data sets. In addition it is unclear where fundraising fits into the SCVO figures. However, the important point is the difference in levels of public funding. Even allowing for the time period between the two data sets, SCVO (2003) note that in their figures, public funding had only been increasing since the late 1990s, and was therefore at a lower base in 1997 than their current figures show. There is also the point made in the McGregor study that their public sector funding includes European funding. Nevertheless that would still not account for the 22% difference, which instead is an illustration that the two data sets are based on very different definitions of what constitutes the social economy.

As noted above, there is a significant contribution to the social economy from the European Union, and this is discussed in the next section.

\(^3\) Personal communication (25 July 2003).


**European funding**

The social economy’s unique motivation, ability to build trust with their clients, expertise in dealing with “problem” groups and areas, and direct representation of their communities through their management structures, have all led the EU to value the input of social economy organisations to the management of the Structural Funds. In particular the focus of many organisations in the sector in dealing with disadvantaged or socially excluded individuals has enabled the sector to become a significant recipient of European Structural Funds.

The main fund which provides assistance to many of the social economy organisations principal client groups is Objective 3. In Scotland Objective 3 funding is provided by the Scottish ESF Objective 3 Operational Programme. The fund, which consists of five priorities, provides assistance to support unemployed individuals back into work and to move socially excluded individuals closer to the labour market, and is worth €498.84m (roughly £312m) between 2000-2006. The programme also provides assistance to build the capacity of organisations, such as social economy organisations, delivering services to target groups supported by the programme (Scottish ESF Objective 3 Partnership, 2000a).

The Scottish ESF Objective 3 Programme Management Executive also manage funding delivered in Scotland via the EQUAL Community Initiative. A Development Partnership (DP) under Theme D of the EQUAL Programme has been established to strengthen the social economy in Scotland. This programme aims to strengthen the social economy (third sector), in particular the services of interest to the community, with a focus on improving the quality of jobs.

Given the importance of European funding to the sector, SCVO has engaged heavily with European funding structures. Symptomatic of this process was the establishment of SCVO’s European Unit in 1991 to provide a range of services to support voluntary, community and social economy organisations applying for, or in receipt of, European Structural Funds.

The European Unit of SCVO continues to develop and manage projects that support the work of social economy organisations. SCVO also manages, on behalf of the Scottish ESF Objective 3 programme, the Direct or Global Grants Scheme, which is worth roughly €11m (or £6.9m) between 2000-06. This scheme provides Objective 3 funding in the form of small grants (typically around £10,000) to voluntary and community organisations within the Scottish Objective 3 programme area (principally Lowland Scotland) (Scottish ESF Objective 3 Partnership, 2000b, p 4). The scheme focuses on three main areas of activity:

- Projects which enhance local networking such as locality studies, social audits, community learning programmes, community profiling, project-specific feasibility studies;
- Projects that increase social cohesion such as food co-ops or development of infrastructure bodies such as a village hall development group;
- Projects that develop community enterprise.

**THE SCOTTISH EXECUTIVE APPROACH TO THE SOCIAL ECONOMY**

This section describes the Scottish Executive’s approach to the social economy, focussing on its statements in *A Review of the Scottish Executive’s Policies to Promote the Social Economy* (2003), which was published on 27 January 2003. In the Review, the Executive acknowledges

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4 For more information on the Scottish ESF Objective 3 Operational Programme and on the operation of the Structural Funds in Scotland more generally see, SPICe paper SM DA01-03 ‘European Structural Funds’ (McVicar and Wakefield, 2003).
the contribution that social economy organisations have made to the social and economic wellbeing of Scotland, and states that the purpose of the review was:

“…to assess the social economy's potential to contribute to the achievement of key Scottish Executive objectives and to identify how the Executive and other public sector and independent agencies might help the sector to realise its potential.” (p 10).

The Scottish Executive adopts a wide definition of the social economy, but argues that an exact definition of the sector is not vital, believing that this could “impose certainty on what is a dynamic area of economic activity” (2003, p 10). It believes the social economy has the potential to bring value on three fronts:

- To services by bringing a user and needs-led focus to planning and delivery; by providing access to services for hard-to-reach groups; by innovating and developing; by attracting dedicated charitable resources, financial and human; and by reinvesting surpluses;
- Through policy development by making independent contributions to public debate informed by their service experience and their user focus; and
- By developing social capital. This can be achieved sometimes simply by the location of a social economy organisation within a community, creating employment and encouraging new economic activity. But it can also be achieved through building the capacity of communities to determine and act on their own definitions of the public good, providing vehicles for independent social action, developing neglected human skills, creating networks of communication and decision taking in communities of place and interest. (p 11).

The Executive document also discusses the activities, benefits and obstacles facing the sector, which largely mirror those discussed above.

**SCOTTISH EXECUTIVE ACTION PLAN TO SUPPORT THE SOCIAL ECONOMY**

The Scottish Executive proposes a number of actions under three main headings:

- Funding;
- Market access and capacity building;
- Support services for social economy organisations.

It points out there are a number of difficult issues that will require the cooperation of a number of organisations, and that the review represents the first step in the process.

The requirements for each of the headings above, together with the Executive’s action points are summarised in the sections below:

**Funding**

<table>
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<tr>
<th>Requirement</th>
<th>Action</th>
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<tr>
<td>The need to develop further a wider market of financial products available to and appropriate for social economy organisations so as to allow them to adopt financial arrangements appropriate to their business needs and reduce their dependency on grants</td>
<td>Executive to work with UK Government, financial institutions, Enterprise Networks, Communities Scotland, Social Investment Scotland and relevant social economy organisations in developing a wider range of financial products available to social economy organisations; and to develop the capacity of social economy organisations to gain access to and to benefit from such products.</td>
</tr>
<tr>
<td>Requirement</td>
<td>Action</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The need to improve existing grant arrangements, by simplifying application</td>
<td>Executive to work with SCVO, local government and Communities Scotland to cover these issues in the joint Executive/SCVO strategic review of funding.</td>
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<td>requirements and improving the efficiency of payment structures.</td>
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<tr>
<td>Explore the options for developing funding support mechanisms which encourage</td>
<td>As above.</td>
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<tr>
<td>social economy organisations to accumulate reserves without undermining</td>
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<tr>
<td>the requirements of public accounting.</td>
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<tr>
<td>The need to develop the asset base of organisations, particularly to increase</td>
<td>Executive to investigate ways in which organisations can be encouraged to develop their asset base by attracting new forms of finance but, at the same time, without having a negative effect on existing funding.</td>
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<td>their ability to access alternative funding sources such as loans.</td>
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<tr>
<td>The need to allow social economy organisations to include the relevant</td>
<td>Scottish Executive to advise the sector on the implementation of full cost recovery for service contracts and with SCVO and CoSLA, to assess options for overcoming any further strategic obstacles to the development of social economy organisations (including the stability of current funding relationships) in its forthcoming strategic funding review of the voluntary sector.</td>
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<tr>
<td>portion of overhead costs within their bids for service contracts and to</td>
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<tr>
<td>identify any further financial obstacles to development.</td>
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**Market access and capacity building**

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<tr>
<th>Requirement</th>
<th>Action</th>
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<tbody>
<tr>
<td>Under the requirements of Best Value, for those responsible for organising</td>
<td>Executive to take account of the recommendations of this review in preparing guidance to local authorities on Best Value.</td>
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<td>public services to be prepared to consider social economy solutions and for</td>
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<td>a code of practice to be produced to support this.</td>
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<tr>
<td>For those responsible for auditing public bodies’ Best Value performance to</td>
<td>Executive and local government to discuss with the Accounts Commission and Audit Scotland development of appropriate audit procedures.</td>
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<td>establish procedures which will allow them to monitor the extent to which</td>
<td></td>
</tr>
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<td>social economy organisations are given an equal opportunity with other</td>
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<td>potential suppliers to make their case to supply public services.</td>
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<tr>
<td>For social economy organisations to be given support to allow them to</td>
<td>Enterprise Networks, Communities Scotland and other business support organisations to develop and provide support and training.</td>
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<td>improve their capacity to market themselves and tackle misconceptions and</td>
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<td>ignorance about their capabilities.</td>
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<tr>
<td>For social economy organisations to be encouraged to develop a ‘learning’</td>
<td>Enterprise Networks, Communities Scotland and other business support organisations to develop and provide support and training.</td>
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<td>culture that promotes leadership and management excellence.</td>
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**Support services for social economy organisations**

There were three main requirements in this area together with action points for several agencies. The requirements were:

- The key objective needs to be a structure of support that is accessible, that provides the kind of support needed by organisations and that offers organisations choice;
- The boundaries of responsibilities of support organisations should not be rigidly defined. There should be a range of accessible provision from which customer organisations can select the kind of support which best meets their needs. But there should be
complementarity and co-ordination between providers and co-ordinators of support services. The main public sector organisations should design the services they offer around their key strengths and core purpose. They should not provide services in a way which will inhibit support activity that may be offered by other organisations;

• There should be a market for the support services available to social economy organisations. But within that market there should be some allocation of responsibilities to the main public sector providers of support services – the Enterprise Networks and Communities Scotland. That division should reflect both existing expertise and existing policy responsibilities.

In fulfilling these requirements, the Executive identified roles for itself and various other organisations. These are described below:

<table>
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<tr>
<th>Organisation</th>
<th>Action</th>
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<tr>
<td>Scottish Enterprise</td>
<td>To concentrate on the support and development of social economy businesses that are close to market sustainability. In doing so, Scottish Enterprise should ensure that the services it offers are appropriately shaped to meet the particular requirements of the social economy sector.</td>
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<tr>
<td>Highland &amp; Islands Enterprise</td>
<td>To continue supporting the social economy along existing lines.</td>
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</table>
| Communities Scotland | • To monitor the market of support services available to social economy organisations;  
• Working with those organisations and with the providers of support services, to identify gaps, areas for improvement or opportunities for rationalisation in provision and to implement action to tackle issues identified, again working with relevant organisations;  
• To develop and support mechanisms to improve the ability of social economy organisations to access support services which are appropriate to their particular needs;  
• To work with other public sector organisations to increase opportunities for the social economy in delivering services;  
• To ensure that Registered Social Landlords (RSLs) fulfil their potential as asset-owning organisations, to regenerate their communities. Communities Scotland will do this by improving the support it provides to RSLs to develop as businesses by providing direct funding for new initiatives, removing barriers to RSLs becoming effective regeneration organisations and identifying and disseminating good practice. |
<p>| Other support organisations, including the Councils for Voluntary Service and Community Planning Partnerships | To work together to identify local needs, develop local programmes of support for social economy organisations and agree local arrangements for delivery (which may differ from place to place). |
| Scottish Executive Departments | To work with the Enterprise Networks, Communities Scotland or other development organisations, to develop strategies for supporting the growth of social economy organisations working in their policy areas, which they consider to have the potential to contribute to improved service delivery. |</p>
<table>
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<tr>
<th>Organisation</th>
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| Scottish Executive Voluntary Issues Unit (VIU) | • Maintain an overview of all this activity through regular contact with all relevant organisations. The VIU should, on a regular basis, report to Ministers on the progress that is being made in developing the social economy and on areas where Ministerial intervention may be required;  
• Liaise with all the organisations mentioned above in order for them to produce more detailed proposals for turning this general indication of priorities and tasks into specific actions and programmes. |

The Executive also emphasised that it and the UK Government have or are in the process of undertaking reviews that will have an effect on the social economy, including charity law reform and the voluntary sector Strategic Funding Review.

In a Scottish Executive press release (2003) the Executive also announced a £6 million funding package to run from 2003-04 to 2005-06. Of this, Communities Scotland will contribute £3 million and the Scottish Executive £3 million. Detailed plans as to how this money is to be allocated are yet to be announced, but the money could be used to:

• Strengthen the asset base and capability of social economy organisations;
• Improve staff training and development within social economy organisations;
• Support entrepreneurial innovation by social economy organisations.

Whilst the Executive did not include a timetable in the review, an Action Plan aimed at encouraging the growth and sustainability of social economy organisations will be prepared for the end of 2003.
BIBLIOGRAPHY


